
OLR Bill Analysis

sHB 5545

AN ACT CONCERNING A COMPREHENSIVE STUDY OF THE STATE'S TAX STRUCTURE.

SUMMARY:

This bill (1) requires the Finance, Revenue and Bonding (FRB) Committee's chairpersons and ranking members (leaders) to oversee a study of the state's tax structure, including local property taxes and (2) specifies how and when they must do so. The leaders must appoint, by July 31, 2014, a panel of experts to help them undertake the study. The bill neither limits the panel's size nor specifies the members' qualifications. The committee's chairpersons must convene the panel's first meeting, but the bill sets no deadline by which they must do so.

In conducting the study, the panel must attempt to develop revenue-neutral options for modernizing the tax system and making it simpler, fairer, more affordable, and economically more competitive. The panel must consult with the Office of Policy and Management secretary, the revenue services commissioner, and other financial experts it deems necessary.

The panel must organize itself into subcommittees, each focusing on a different tax and addressing the issues the bill frames for that tax. By December 31, 2014, it must develop a work plan for 2015, listing its goals and tentative work schedule. The panel must meet with many different interest groups, including accountants, attorneys, business associations, labor unions, and public interest groups. It must implement the plan during 2015 and report its findings and recommendations to FRB by February 1, 2016.

EFFECTIVE DATE: July 1, 2014

STUDY'S OUTLINE

The bill requires the panel to study each state tax and the local

property tax, specifying general and specific issues the panel must consider.

General Considerations

For each tax, the panel must determine if it:

1. encourages economic growth;
2. is efficient, stable, simple, and predictable; and
3. is fair and equitable.

Corporation Business Tax

With respect to this tax, the panel must consider:

1. how the tax affects corporate operations;
2. how it affects the state's business competitiveness and the cost of goods and services;
3. the extent to which the corporation business tax structure applies to existing business entities, especially when more are organizing themselves as entities other than corporations;
4. how businesses are using tax credits, including the extent to which they (a) achieve policy goals, (b) apply to entities other than corporations, (c) should be expanded or increased, and (d) should be evaluated using results-based accountability methods; and
5. the advantages and disadvantages of using combined reporting and other forms of corporate taxation.

Sales and Use Taxes

The panel must consider the following issues when examining the sales and use taxes:

1. how the existing rate and exemptions affect the state's revenue and economy compared to a lower rate and fewer exemptions;

2. how the sales tax affects business-to-business sales;
3. whether the luxury tax raises enough revenue to offset the lost retail business from the tax; and
4. whether there is equity within the current structure, including whether bed and breakfast inns should be taxed at the same rate as hotels.

Personal Income Tax

With respect to this tax, the panel must consider:

1. the rate structure's progressivity and equity between single and joint filers;
2. the purposes and effectiveness of the existing deductions and exemptions;
3. whether (a) the existing tax credits fulfill public policy goals and (b) other credits should be allowed;
4. whether the Connecticut minimum tax rate needs to be adjusted; and
5. how the tax is administered and whether it is fair and efficient, including its tax refund methods.

Local Property Tax

The panel must consider the following issues when examining the local property tax:

1. how the tax affects businesses and residents,
2. the real and perceived inequities resulting from different municipal property tax rates, and
3. other sources of municipal revenue.

Estate and Gift Tax

With respect to this tax, the panel must consider:

1. the extent to which it causes state residents to leave the state,
2. how the state is affected by the loss of high-income residents due to the tax, and
3. whether rate adjustments are advisable.

Excise Taxes

The panel must consider how these taxes (1) affect consumers and price elasticity and (2) whether they serve a specific public policy.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 50 Nay 0 (03/25/2014)